India's Economic Surge: Analysing the Robust Growth in FY24

This editorial is based on **“How India can sustain its economic momentum in an uncertain world”** which was published in The Indian Express on 24/11/2023. It discusses the factors that have contributed to a sustained growth this year and what are the areas of concerns that India need to be cautious of.

For Prelims: E-way Bills, GST, Inflation, Bond Yields, Retail Inflation, Core Inflation, Wholesale Price Index, West Texas Intermediate, National Green Hydrogen Mission,National Logistics Policy, Labour Law Reforms, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),

For Mains: Factors Contributing to India’s Growth, Challenges and Way Forward, Government Policies

From a macroeconomic perspective, the month of November 2023 has so far been rather cheerful, and may well end on a positive note when the **Gross Domestic Product (GDP)** numbers for India are released for the second quarter. The **Indian economy** is seen to have maintained its growth momentum in the second quarter of Financial Year 2023-24 (Q2 FY24) and is estimated to have grown about 7% with robust factory expansion and higher consumption.

How has the Indian Economy Grown in the Fiscal Year 2024?

- India's GDP **grew by 7.8%** in the first quarter of the 2023-2024 fiscal year.
- The growth **estimates for the second quarter can touch the 7% mark** because of the factors such as **e-way bills, Goods and Services Tax (GST) collections, credit growth, electricity consumption,** and other mobility indicators suggest that healthy private consumption and factory output, robust services activity, and front-loading of government **capital expenditure** (Official estimates will be released by the end of November 2023).
    - The central government has **spent around 49% of its FY24 budgeted capex** in the first half of the year, which is 43% higher than the expenditure in the same period in 2022.

What are the Factors that have contributed to the Robust Growth?

- **Geopolitical Factors:**
    - In global geopolitics, positive signs have emerged from West Asia, where **Israel and Hamas are reported to have agreed to a short ceasefire.**
    - Another positive development has been US and Chinese President holding a summit and discussing various global and bilateral issues including the West Asia situation, Iran, Taiwan, **climate change** and military communication.
        - Despite there being no joint statement or formal cooperation declaration, the

summit still managed to send a positive and important signal that cooperation can bring benefits to a nervous world.

- **Economical Factors:**
  - **External:**
    - **Inflation Easing:** A positive surprise has come from the recent **inflation** prints in the developed world.
      - The US **Consumer Price Index (CPI)** based inflation stood at 3.2% in October, down from 3.7% in September.
      - Alongside, inflation in the European Union also dropped sharply to 2.9% from 4.3% the month before.
    - **Bond Yield Easing:** **Bond yields** have eased globally and equities have soared as these price readings have raised hopes that the fight against inflation may have finally reached an end.
  - **Internal:**
    - **Decline in Inflation:** **Retail inflation** eased by 10 basis points to 4.9% — a four-month low.
      - **Core inflation** eased to 4.2%.
      - The **Wholesale Price Index** declined 0.52% compared to the same period in 2022, marking the seventh consecutive month in negative territory, imparting relief to producers via softer input prices.
    - **Stability in Crude Oil Prices: Global crude oil prices have continued to soften** and are seemingly staring at a bear market. The **West Texas Intermediate is down** around 20% from a high in September.
    - **Festivals:** The festive season also ended on a positive note. According to the Confederation of All India Traders (CAIT), retail markets in **India saw record trading of Rs 3.75 lakh** crore during this festive season.
      - Add to this an additional trade of Rs 50,000 crore during the remaining festivals and the signals are encouraging.

What are the Factors that India Should Keep a Watch upon?

- **Oil Prices:** Oil prices **need to be carefully watched with the** Organization of the Petroleum Exporting Countries (OPEC) and its allies (OPEC+) leaders set to review production targets later this month. The grouping will want to defend the prices going forward and they could do that by leveraging their pricing power and making sure that the supply deficit is maintained via extension of supply cuts. Following steps can help India reduce its dependence on the OPEC+.
  - **Diversify the Sources of Oil Imports:** India has increased the number of its crude oil suppliers from 27 countries in 2006-07 to 39 in 2021-22, adding new suppliers like Columbia, Libya, Gabon, Equatorial Guinea etc., while strengthening its relationship with countries like US and Russia.
  - **Accelerate Bio-fuel Economy:** India has been developing its **bio-fuel** economy by increasing the ethanol blending in petrol from 1.53% in 2013-14 to 20% by 2025-26.
    - The government has also launched the **National Green Hydrogen Mission** to develop green hydrogen production capacity of at least 5 MMT per annum.
  - **Shift to Renewable Energy Sources:** India has been **promoting the use of natural gas and** renewable energy sources to reduce its oil consumption and carbon footprint.
    - The government has set a **target of increasing the share of natural gas** in the energy mix from 6% to 15% by 2030.
    - The government has also announced its **aim of achieving 500 GW installed capacity** from non-fossil fuel based sources by 2030.
- **External Demand:** The external demand environment still remains very feeble and world trade growth remains at historic lows, with few signs of improvement. In fact, it is projected to decline from 5% in 2022 to 1% in 2023.
  - **Boost Domestic Demand:** The government has announced a series of measures to boost the investment climate, such as **easing the Foreign Direct Investment (FDI) norms, reducing the corporate tax rate,** and launching a **production-linked incentive scheme** for various sectors.
    - These initiatives can help attract more domestic and foreign investment and create more jobs and income opportunities for the people.

- **Enhance Export Competitiveness:** India can boost export competitiveness through improved quality, **increased productivity, diversified export markets, and streamlined trade facilitation.** The government has taken steps to improve the **ease of doing business,** simplify the GST regime, implement the **National Logistics Policy,** and **reform the labour laws.**
    - These measures can help reduce the regulatory and logistical barriers for exporters and make them more efficient and competitive in the global market.
- **Pursue Regional and Bilateral Trade Agreements:** India can pursue **regional and bilateral trade agreements with its strategic partners** and potential markets, which can help expand its market access, reduce tariff and non-tariff barriers, and promote trade and investment flows.
    - The government has expressed its interest in joining the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),** which is a mega-regional trade pact among 11 countries.
    - India is also negotiating **free trade agreements** with the European Union, the UK, Australia, and the **Gulf Cooperation Council.**
    - These agreements can help India diversify its trade relations and benefit from the regional value chains.

- **Monetary and Fiscal Polices:** India should align its **monetary** and **fiscal** policies, considering both local and global influences. Experts praise India for effectively coordinating these policies, unlike the US and elsewhere.
    - The **Reserve Bank of India (RBI)** and the finance ministry have adeptly handled global risks and ongoing inflation concerns.
    - The government is progressing towards its 5.9% GDP **fiscal deficit** target and should emphasize its commitment to this goal.

Conclusion

India's Q2 FY23-24 macroeconomic outlook is optimistic, projecting a 7% GDP growth. Factors include geopolitical stability, favorable economic conditions, and controlled inflation with stable oil prices. Challenges like fluctuating oil prices require strategic measures, such as diversifying sources and prioritizing green initiatives. Domestically, sustaining demand and boosting export competitiveness are key focuses. India demonstrates commitment to global economic stability through effective policy coordination, including monetary and fiscal measures.

Drishti Mains Question:

Q. Examine the role of both domestic and global factors contributing to India's positive GDP growth. Additionally, analyze the challenges posed by external factors and suggest policy measures that India should consider to sustain its economic resilience in the current global scenario.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q1. With reference to Indian economy, consider the following statements: (2015)

1. The rate of growth of Real Gross Domestic Product has steadily increased in the last decade.
2. The Gross Domestic Product at market prices (in rupees) has steadily increased in the last decade.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (b)

Q2. A decrease in tax to GDP ratio of a country indicates which of the following? (2015)

1. Slowing economic growth rate
2. Less equitable distribution of national income

Select the correct answer using the code given below:

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (a)

Mains

Q1. Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP? **(2020)**

Q2. Explain the difference between computing methodology of India's Gross Domestic Product (GDP) before the year 2015 and after the year 2015. **(2021)**